



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LAUREL COUNTY CLERK**

Calendar Year 2001

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Dean Johnson, Laurel County Clerk
Members of the Laurel County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Laurel County, Kentucky, for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Laurel County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**AUDIT EXAMINATION OF THE
LAUREL COUNTY CLERK**

Calendar Year 2001

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LAUREL COUNTY CLERK

Calendar Year 2001

Berger & Ross, PLLC, has completed the Laurel County Clerk's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects. However, the audit did reveal a noncompliance which is listed below:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

Financial Condition

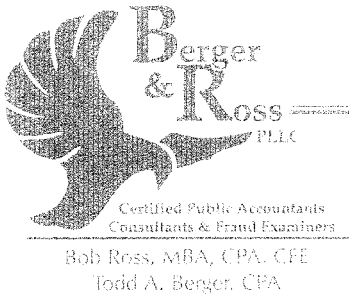
Excess fees decreased by \$24,676 from the prior calendar year, resulting in excess fees of, \$345,987 as of December 31, 2001. Revenues increased by \$868,393 from the prior year and disbursements increased by \$890,642.

Deposits

On April 30, 2001 and December 31, 2001, \$309,542 and \$113,655, respectively, of the Laurel County Clerk's deposits of public funds were uninsured and unsecured.

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Association of Certified Fraud Examiners (ACFE)
National Association of Public Accountants (NAPAs)
National Association of Tax Professionals (NATP)
National Association of Government Accountants (NAGAs)
National Association of Public Accountants (NAPAs)

To the People of Kentucky
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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Laurel County Clerk of Laurel County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the basis of accounting described above.

To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued a report dated June 26, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed –
June 26, 2002

LAUREL COUNTY
DEAN JOHNSON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Fees for Services	\$	22,518
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Fiscal Court		19,308
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Licenses and Taxes:

Motor Vehicle -

Licenses and Transfers	\$	1,531,766
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Usage Tax		6,875,532
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Tangible Personal Property Tax		2,592,009
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Temporary Tags		19,494
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Licenses -

Marriage		19,838
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Occupational		636
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Deed Transfer Tax		119,081
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Delinquent Tax		423,940
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Handicap Parking Permits	<u>5,386</u>	11,587,682
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Fees Collected for Services:

Recordings -

Deeds, Easements, and Statements	\$	38,852
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Chattel Mortgages and Financing Statements		184,299
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Real Estate Mortgages		91,777
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Power of Attorney		3,256
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All Other Recordings		67,831
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Charges for Other Services -

Copy Work		24,931
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Other Miscellaneous	<u>991</u>	411,937
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Other:

Postage	\$	1,801
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Usage Correction		4,984
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Overpayments	<u>22,358</u>	29,143
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Interest Earned		<u>11,932</u>
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Gross Receipts		<u>\$ 12,082,520</u>
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LAUREL COUNTY
DEAN JOHNSON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Disbursements

Payments to State:

Motor Vehicle -

Licenses and Transfers	\$	1,179,324	
Usage Tax		6,655,204	
Tangible Personal Property Tax		1,215,223	
Marriage Licenses		7,763	
Delinquent Tax		71,288	
Legal Process Tax		<u>46,483</u>	\$ 9,175,285

Payments to Fiscal Court:

Motor Vehicle -

Tangible Personal Property Tax	\$	235,091	
Deed Transfer Tax		113,126	
Delinquent Tax		<u>44,053</u>	392,270

Payments to Other Districts:

Motor Vehicle -

Tangible Personal Property Tax	\$	1,037,543	
Delinquent Tax		<u>194,894</u>	1,232,437

Payments to Sheriff

7,855

Payments to County Attorney

68,022

Capital Outlay:

Equipment			17,959
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Operating Disbursements:

Personnel Services -

Deputies' Salaries	\$	493,193	
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Employee Benefits -

Social Security		34,344	
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Health Insurance		80,022	
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Other Payroll Disbursements		4,500	
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LAUREL COUNTY
DEAN JOHNSON, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Disbursements (Continued)

Operating Disbursements (Continued):

Contracted Services -		
Printing and Binding	\$	6,647
Advertising		293
Maintenance		34,672
Supplies and Materials:		
Office Supplies		30,897
Other Charges -		
Telephone		5,797
Postage		9,677
Dues		1,750
Travel		8,880
Refunds		20,587
Copier Repair		789
Miscellaneous		32,615
		<u>\$ 764,663</u>
Total Disbursements		<u>\$ 11,658,491</u>
Net Receipts	\$	424,029
Less: Statutory Maximum		<u>74,442</u>
Excess Fees Before Expense Allowance	\$	349,587
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for Calander Year 2001	\$	345,987
Less: Payments to County Treasurer - December, 2001		<u>345,987</u>
Balance Due County Clerk at Completion of Audit	\$	<u><u>-</u></u>

LAUREL COUNTY
NOTES TO THE FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's Office to invest in the following, including but not limited to, obligations of the United States and of its agencies instrumentalities, obligations, and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

LAUREL COUNTY
NOTES TO THE FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 30, 2001 and December 31, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$309,542 and \$113,656, respectively, of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of April 30, 2001 and December 31, 2001:

	<u>April 30</u>	<u>December 31</u>
Collateralized with securities held by pledging depository institution county official's name	\$400,000	\$400,000
FDIC Coverage	100,000	100,000
Uncollateralized and unsecured	<u>309,542</u>	<u>113,656</u>
Total	<u>\$809,542</u>	<u>\$613,656</u>

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COMMENT AND RECOMMENDATION

LAUREL COUNTY
DEAN JOHNSON, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 2001

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

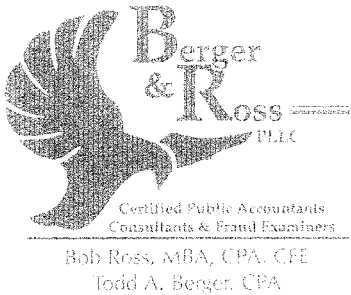
On April 30, 2001 and December 31, 2001, \$309,542 and \$113,655, respectively, of the County Clerk's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Clerk's Response:

Clerk has called bank about the situation and was assured that this would be corrected and be more closely monitored for future references.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Association of Certified Financial Planners
Association of Government Auditors
Association of Auditors and Accountants
National Association of Public Accountants
Kentucky Institute of CPAs

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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements and excess fees of the Laurel County Clerk for the year ended December 31, 2001, and we have issued our report thereon dated June 26, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report on Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit Fieldwork completed –
June 26, 2002

